

Message Text

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20

ACTION NEA-09

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 /114 W

----- 091212

R 190845Z APR 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2853

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMBASSY CARACAS 40

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PARIS

US MISSION OECD PARIS UNN

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY QUITO

C O N F I D E N T I A L ABU DHABI 0844

NOFORN

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: FURTHER INFORMATION ON TERMS OF ABU DHABI SETTLEMENT WITH
OIL COMPANIES

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1. ABU DHABI GOVERNMENT AND THE TWO PRINCIPAL OPERATING COMPANIES HERE ARE NOW AGREED ON ALL ESSENTIAL POINTS IN NEW PRICING AND FINANCIAL ARRANGEMENTS THAT WILL ENABLE HIGHER PRODUCTION LEVEL FOR REST OF THIS YEAR AND CONTINUATION OF DEVELOPMENT PROGRAMS. FOLLOING ARE ELEMENTS OF SETTLEMENT WITH ABU DHABI MARINE AREAS (ADMA) TO TAKE INTO ACCOUNT ITS (A) GREATER OPERATING COSTS AND (B) CASH FLOW PROBLEMS STEMMING FROM NEED TO PUT UP 40 PERCENT SHARE OF ONE BILLION DOLLAR CAPITAL INVESTMENT PROGRAM OVER NEXT TWO YEARS.

(A) ADG HAS AGREED TO GRANT ACCELERATED DEPRECIATION SCHEDULE (NORMALLY SPREAD EVENLY OVER 10 YEARS) WHICH WILL IN EFFECT RAISE DEDUCTION FOR OPERATING COST ON EQUITY CRUDE FROM PRESENT \$1.16 A BARREL TO MORE THAN \$3. WHILE THIS WILL THEORETICALLY HAVE TO BE MADE UP BY LOWER DEDUCTIONS FOR DEPRECIATION IN SUBSEQUENT YEARS, AS ONE COMPANY OFFICIAL PUT IT QUOTE THAT IS PROBLEM WE WILL FACE WHEN WE COME TO IT UNQUOTE.

(B) ON MATCHING QUANTITY OF BUY-BACK OIL, ADMA HAS BEEN GIVEN ADDITIONAL 30 DAYS IN WHICH TO MAKE PAYMENT. THUS, FIRST ONE-THIRD PAYMENT DUE ON FIRST QUARTER BUY-BACK WILL NOW BE MADE ON APRIL 15 (WHEREAS ADMA FOMERLY AND ADPC NOW MUST PAY ON MARCH 15).

(C) FINALLY (AND WE HAVE BEEN ASKED BY OUR INFORMANT NOT TO PASS THIS TO OTHER GOVERNMENTS OR COMPANIES) ADMA HAS BEEN GIVEN 10-CENT DISCOUNT ON PRICE OF BUY-BACK OIL, NOMINALLY SET AT 93 PERCENT OF POSTING. ADMA BELIEVES THIS HAS NOT BEEN GIVEN TO ADPC.

2. IN RETURN FOR THESE TERMS, TOGETHER WITH LOWERED POSTED PRICES FOR ABU DHABI CRUDES PREVIOUSLY REPORTED AND ASSURANCES THAT 60/40 OWNERSHIP ARRANGEMENT WILL PREVAIL THROUGH AT LEAST THIS YEAR, ADPC AND ADMA HAVE GIVEN "BEST ENDEAVOR" UNDERTAKING TO LIFTINGS THAT WOULD GIVE ABU DHABI PRODUCTION AVERAGE FOR YEAR OF 1.5 MBD (OF WHICH ADPC WOULD TAKE 800,000 BD, ADMA 400,000 BD, AND ADNOC 300,000BD).

3. NO UNDERSTANDING HAS BEEN REACHED BETWEEN COMPANIES
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AND ADG ON QUESTION OF BUYING BACK ANY UNMARKETED PORTIONS OF ADNOC OIL. HOWEVER, ADNOC SOURCE TELLS US THAT IN CONTRAST TO PREVIOUS PRACTICE, ADNOC WILL NOW BE ADOPTING MORE FLEXIBLE APPROACH TO ITS MARKETING. ADNOC HAS EXTENDED INVITATIONS TO COMPANIES TO NEGOTIATE PURCHASES ON UNDERSTANDING THAT QUOTE EVERYTHING IS NEGOTIABLE -- QUANTITY, PRICE, CREDIT TERMS UNQUOTE. OUR SOURCE ACKNOWLEDGES HOWEVER THAT IN SPITE OF THIS MORE ATTRACTIVE

INVITATION THERE HAS THUS FAR BEEN NO STAMPEDE OF
INDEPENDENT BUYERS TO ADNOC'S DOORSTEP, AND THAT ADNOC
WILL HAVE TO GET BUSY IF IT EXPECTS TO MARKET AN AVERAGE
OF 300,000 BD FOR THE YEAR.

4. COMMENT: ABU DHABI DEPARTMENT OF PETROLEUM AND
ADNOC UNDERSTANDABLY SENSITIVE ABOUT EXTENSION LIBERAL
TERMS TO COMPANIES TO RESTORE PRODUCTION LEVELS, PARTICULARLY
WILLINGNESS TO GO BELOW 93 PERCENT OF POSTED PRICE FOR
ADMA BUY-BACK. WHILE THIS INFO WILL UNDOUBTEDLY LEAK OUT
IN COURSE OF TIME, ADDRESSEES REQUESTED HOLD IT TO THEMSELVES
FOR TIME BEING.
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Message Attributes

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